INTERIM STUDY BY THE

JOINT COMMITTEE ON

FINANCE & CLAIMS

BOND ISSUES IN MONTANA

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Montana Legislative Council
State Capitol
Helena, Montana

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RECOMMENDATIONS

The Joint Committee on Finance and Claims recommends that the 1974 Montana Legislature:

(1) In the interest of providing assistance to local governments in the planning and marketing of general obligation bonds, authorize the Department of Administration to provide advice and information to local governments that desire such assistance.

(2) In order to enable local governments to better plan and market their bonds and avoid confusion, clarify the statutes that prohibit local governments from hiring private counsel to aid in the proceedings of <u>general obligation bonds</u>.

(3) In order to enable local governments to better plan and market their bonds and avoid confusion, clarify the statutes that permit local governments to hire private counsel to aid in the proceedings of <u>revenue bonds</u>.

(4) In the interest of achieving lower interest rates, allow school districts within a single county the option of consolidating their bond issues, in any given year, into a single issue.

SENATE JOINT RESOLUTION NO. 15

INTRODUCED BY FINANCE AND CLAIMS

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA DIRECTING THE LEGISLATIVE COUNCIL TO EVALUATE THE NEED FOR STATE COORDINATION OF THE PLANNING, MARKETING AND SERVICING OF BOND ISSUES IN THE STATE OF MONTANA.

WHEREAS, a recent audit report issued by the office of the legislative auditor has indicated a need for the state to provide technical assistance in the planning, marketing, and servicing of public school bond issues, and

WHEREAS, public elementary and secondary school districts, municipalities, and various state agencies and educational institutions in the state must now individually and on each occasion plan, market, and service their respective bond issues, and

WHEREAS, private nonprofit educational institutions also have a need for similar technical assistance in the area of financing the construction and acquisition of school facilities, and

WHEREAS, other states have found it beneficial to establish a means of state coordination and assistance in the planning, marketing, and servicing of governmental and

private nonprofit bond issues.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the legislative council conduct a study of the need for state coordination of the planning, marketing, and servicing of bond issues within the state and report the results of this study to the second session of the forty-third legislative assembly.

-End-

INTRODUCTION

Senate Joint Resolution No. 15 directed the Committee on Finance and Claims to study the need for state coordination of the planning, marketing, and servicing of bond issues within the state of Montana. The Resolution resulted from a 1972 legislative audit report that pointed out several problems encountered by local governments in the issuing of bonds.[1] Because of a general lack of expertise in the bond field, one school district, for example, spent an inordinate amount -- nearly $3,500 -- to advertise a $385,000 bond issue.[2] The audit report concluded that a comprehensive study of all bonds issued in Montana, as well as the bond market in general, was required to determine the extent of difficulties faced by local governments issuing bonds and to recommend corrective measures, if necessary.[3]

During the 1973 legislative interim the committee undertook a thorough study and analysis of the issuing of bonds in Montana. The committee heard testimony and received prepared statements from individuals, agencies, and local governments interested in the issuing of bonds. In addition, the committee distributed two questionnaires -- a bond issue profile and a technical assistance form -- to all governments, school districts, etc., that issue bonds.[4] The data compiled from the questionnaires were analyzed and compared with similar data nationally.

The testimony and data revealed that many local governments could profit from greater expertise in the planning and marketing of bonds than is currently available to them. The available information also revealed, however, that local governments in Montana do not require, at this time, substantial assistance in the bond field. Consequently, the committee, after studying several methods by which the state could assist local governments, concluded that the state should limit its involvement in the debt management practices of local governments to an advisory capacity. Moreover, only those local political subdivisions that solicit advice should be aided by the state. The committee further determined that the clarification of several specific statutes regarding bonds would benefit communities that plan and market bonds.

The types of bonds the committee studied are commonly referred to as "municipal bonds." They include bonds issued by school districts, states, counties, cities, towns, townships, and other public authorities. General obligation and revenue bonds constitute the major portion of bonds issued by local governments, and they will be referred to throughout the report. A general obligation bond is a bond secured by a pledge of the issuer's full faith and credit and taxing power. A revenue bond, on the other hand, is a bond payable from revenues secured from a project that pays its way by charging rentals to the users, such as toll bridges or toll highways, or from revenues from another source

that are used for a public purpose. No attempt was made to include special improvement district bonds (S.I.D.'s) in this study. S.I.D.'s (e.g., a sewer) are, for the most part, unique to each community.

In preparing this report, the committee wishes to thank all those agencies, governments, and individuals, too numerous to mention singularly, who answered questionnaires, gave testimony, and prepared statements for the attention of the committee.

BACKGROUND AND HISTORY

An important part of all local government expenditure in the United States is financed from borrowed funds. Over sixty percent of the capital outlay -- i.e., expenditure for new construction and the purchase of land and equipment -- of local governments is borrowed. And approximately ninety-five percent of local government borrowing or indebtedness is derived from the issuing of bonds.[5] Thus, the process by which local governments issue bonds, that is, manage their debt, is a salient function of local government administration.

There are two principal reasons why local governments borrow funds to finance capital outlays. First, major items of capital expenditure arise irregularly and generally cannot be financed conveniently from recurrent revenue sources that are relatively stable from year to year. This is especially true for small communities that may expand, for example, their school facilities once every ten years. The second reason is that because the new public facilities will serve the community in future years, future citizens should reasonably be expected to pay part of the bill.[6] To rely on current revenue to finance all capital outlays would involve, essentially, payment-in-advance, and overburden the taxpayer of the present generation.

In Montana, the law does permit a school district to establish a building reserve fund for the purpose of funding future construction. Section 75-7205 of the Revised Codes of Montana (1947), as enacted by the 1971 Legislature, states in part:

> The trustees of any district, with the approval of the qualified electors of the district, may establish a building reserve for the purpose of raising money for the future construction, equipping or enlarging of school buildings or other buildings needed for school purposes in the district . . . . Whenever a subsequent bond issue is made for the same purpose or purposes of a building reserve, the money in the building reserve shall be used for such purpose or purposes before any money realized by the bond issue is used.

No information is readily available concerning the number of school districts that have built up a reserve fund. Considering the high interest rates of 1971-1973 and the need for a popular referendum, however, one might surmise that few school districts have created reserve funds.

The planning, issuing, and marketing of bonds is an involved and complex process. Authorization for the bond issue, frequently requiring a public referendum, must be obtained, legal opinions rendered, marketing conditions studied, and the date of sale publicized before competitive bidding is opened. Each step,

carefully executed, can save a government money, especially in terms of lower interest costs. Often a community's highest ranking financial and political officials are directly involved in the bond issuing process. Not infrequently, these officials need and seek outside aid.[7]

The debt management practice of all local governmental units is a strong and legitimate statewide concern. Historically, this concern on the part of local governments for one another's debt management practices is illustrated by the financial crisis of the 1870's. During the late 1860's and early 1870's many localities floated bonds for aid to railroads, usually to assure or encourage the location of routes through their areas. With the onset of a sharp depression in 1872-73, however, many debt-loaded governments found themselves in difficulty, and numerous bond issues went into default. The result of widespread defaulting in the 1870's was a sharp contraction in the availability of long-term credit for local governments. For nearly two decades afterwards, local communities were forced to finance their essential capital outlay largely on a pay-as-you-go basis, whether or not they had defaulted previously.[8] Financial crises similar to that of the 1870's occurred in the 1890's and the 1930's. Today, no doubt, the modern financial market, with its improved sources of information, is better able to discriminate among individual borrowers and bond issues than in the past. Nevertheless, local governments still have a definite stake in the general standing of municipal bonds, and their own credit position may be affected by the financial and administrative reputation of other units in their states.[9]

Even in a very direct financial sense, state governments are affected by the borrowing practices of their political subdivisions. If undesirable debt situations impair the credit and financial strength of local units of government, pressures will grow for the state governments to take on additional responsibilities, either directly or in the form of further aid to local communities.[10]

The state's concern, however, rests on more fundamental considerations. The citizens served locally are also state citizens, and the debt-incurring authority of local governments is derived ultimately from the state's constitutional powers.[11] States have a responsibility to involve themselves, in a positive way, in the borrowing practices of their political subdivisions. The Council of State Governments recognized this over ten years ago:

> States have an inescapable interest in and concern with the quality of debt management practices of their local governments. Each community's practice is a matter of statewide concern because a blemish on its credit standing, perhaps on only a single bond issue, tends to affect the money market's judgement of other local bond issues in that state. It is appropriate and desirable therefore that state governments provide technical assistance in debt management

to their cities, towns, counties and other local units in forms and in extent appropriate for their particular circumstance.[12]

Montana legislators long have recognized that state government should play a positive and constructive role in providing leadership and assistance to local governments. And in a recent address the Governor of Montana underscored the state's inescapable responsibility for the quality of local government. Where many laws under the old constitution created confusion and imposed restrictions on local governments, the new constitution, the Governor stated, allows and even demands that the state play a creative role in modernizing local government. The capabilities of state agencies should be strengthened and coordinated to assist local governments as well as serving as a clearinghouse for information.[13] Assistance and information in the processes of issuing bonds is one area where local governments need aid and where the state can provide it.

PROBLEMS FACED BY LOCAL GOVERNMENTS

Small governments generally face several problems in marketing bonds. First, they market bonds at infrequent intervals, and their issues usually involve only a limited number of bonds of relatively small total dollar amounts. Second, major bond buyers, such as insurance companies and commercial banks, usually prefer to purchase bond issues that are large in total dollar amounts because larger issues are generally easier to trade. Consequently, small borrowers attract relatively few bidders for their bonds, and diminished competition may result in higher interest costs. Third, small communities generally have a more difficult time providing bond buyers with the detailed financial information they need than do large municipalities. Because small borrowers issue bonds infrequently they most often do not employ a full-time financial consultant. Fourth, small communities often cannot afford the experienced legal and financial expertise necessary to guide the bond issue smoothly and effectively. Finally, the influential bond rating services (e.g., Moody's, Standard and Poor's), which evaluate municipal fiscal responsibility, usually will not rate bonds of political subdivisions unless such units have a specified minimum debt outstanding.[14]

In times of high interest rates the problems faced by small borrowers are compounded. During the credit crunch of 1970 and after, many governmental units were unable to market bond issues because of prohibitively high interest rates and/or legal limits on the rate paid.[15] As a consequent, needed public construction was delayed. Today, interest rates are again skyrocketing, demonstrating in dramatic form the need for some kind of assistance to local governments in the bond field, whether it be in providing general information or marketing a particular bond issue.

BOND ISSUING IN MONTANA

Local governments in Montana that borrow funds for capital expenditures face problems similar to those confronted by small communities across the nation. For example, in 1970 several local governments in Montana were forced to cancel bond issues because of a legal limit of six percent (6%) on the amount of interest a community could then pay on a bond issue.[16] The 1971 Montana Legislature, however, raised the interest rate limit to between seven and nine percent (7-9%) under specified conditions.[17] Furthermore, because most Montana bonds are in amounts of less than $600,000, few issues are eligible for a credit rating.[18] And, according to most bond authorities, a good rating can result in lower interest rates.[19]

The greatest difficulty confronting local borrowing units in Montana, however, is the general unavailability of expertise in the bond field. The vast majority of local governments in Montana do not issue bonds frequently enough to warrant the hiring of a full-time financial consultant. Yet in most cases, persons empowered with the responsibility of issuing bonds under current Montana law have had little or no experience in the bond field. General obligation school bonds, for instance, are planned, marketed, and serviced by local school boards and their superintendents, with the cooperation of the county attorney.[20] City officials likewise market their general obligation bonds. But these officials are not elected to their offices because of any presumed expertise in the bond field. Most often, their expertise lies in fields other than the management of bonds.

Moreover, the state does not provide any practical assistance to local governments issuing bonds. A school board must inform the State Board of Investments when it is about to plan and market a bond issue. The Investment Office then mails the school board a set of forms, acknowledged to be outdated, that the school board attempts to follow in its bond issuing process.[21] And all general obligation bonds, whether issued by a city, county, or school district, must be approved by the Attorney General's Office. But this approval amounts to a mere formality, and the Attorney General's Office does not presume to be knowledgeable in the bond field.[22]

Finally, the Montana statutes are confusing on the question of whether a local government may hire legal or financial counsel to aid in a bond proceeding. Sections 75-7121 and 11-2315, of the Revised Codes of Montana, (1947), definitely appear to prohibit both municipalities and school districts from hiring legal counsel to aid in the proceeding of a general obligation bond. These sections state in part:

> No attorney fees, brokerage or other fees, or commissions of any kind shall be paid to any person or corporation for assisting in the proceedings or in the preparation of the bonds, or in negotiating the sale.

The Attorney General, in an opinion dated October 23, 1963, agreed that private counsel may not be hired in a general obligation bond proceeding.[23] Section 75-7125 of the Revised Codes of Montana, however, states in part:

> It is part of the official duties of the county attorney of every county of this state to advise and assist the trustees of each school district of his county in its bond proceedings. . . . The trustees of any school district, however, may, upon consent of the county attorney, employ any attorney licensed in Montana to assist the county attorney in the performance of his duties.

The possibility exists that school district officials, who are not familiar with the Attorney General's opinion, will interpret or have interpreted the statutes to mean that they may hire and pay private counsel for aid in a bond proceeding.

In the case of <u>revenue bonds</u>, on the other hand, the statutes appear to prohibit local governments to hire private counsel to aid in the bond proceeding. Section 11-2403 of the Revised Codes of Montana states in part:

> The governing body of the municipality in determining such cost [revenue bond proceeding], may include all costs and estimated costs of the issuance of said bonds, all engineering, inspection, fiscal and <u>legal expenses</u> [emphasis added], ...

Nevertheless, this statute does not explicitly permit the hiring of private counsel in a revenue bond proceeding.

The Committee, therefore, recommends that these statutes, discussed above, be clarified to read conclusively that private counsel may <u>not</u> be hired to aid in the proceeding of a general obligation bond, but to permit private counsel to be employed to aid in the proceeding of a revenue bond. General obligation bonds are not difficult to arrange and sell; the local government attorney is capable of handling the proceeding without hiring outside help. Revenue bonds, however, are more difficult to plan and market and require a complex arrangement of taxation and repayment; expertise in the bond market is often essential for the successful sale of revenue bonds.[24]

The primary consequence of the lack of bond expertise at the local level in Montana is that overhead costs in the planning and marketing of bonds are often higher than might reasonably be expected. Included under overhead costs are the expenses incurred in the planning and holding of a bond election, advertising the bond, marketing the bonds, and (where permissible) hiring bond counsel. One example -- the school district that spent $3,500 to advertise a $385,000 bond -- was cited earlier. There are numerous other examples.[25] One prominent example is that of a

city, obviously unaware of any legal restrictions, that paid a private bond counsel $2,150 to set up its $60,000 general obligation bond.[26] Besides being illegal, the fee was excessive. Another city paid an attorney's fee of $4,500 for work completed in the planning and marketing of a $72,000 revenue bond. While not illegal, this fee was exorbitant, and prompted the city finance officer to suggest that the attorney's fees be set in advance of the bond issue. In this manner, attorneys' fees on bond issues might become competitive, resulting in lower costs to taxpayers. Other costs appear to vary widely: advertising expenses ranged from $24 to $382; election costs from $48 to $300; and printing of bonds (for issues of relatively equal dollar amounts) from $115 to $595. Obviously, overhead costs in issuing bonds in Montana are not competitive. Rather, these costs appear to depend upon who is advising whom and when.

Various other difficulties face local communities in Montana. Several local officials commented that they were unaware of where and how to advertise their bond issue. One community finance officer stated that he had to talk a bank into bidding on the bonds because no one else had. Other city and county officials noted that their attorneys had to spend an inordinate amount of time on some bond issues because of their general lack of experience in the area. In many other instances, local officials relied on the advice of one of the bond companies that had either bid on the bond issue or purchased it. The bond company, some officials stated, quite naturally considered its own interests first and the community's second. And in Montana only three bond companies generally bid on any single issue -- Piper, Jaffray and Hopwood, D. A. Davidson, and Dain, Kalmin, and Quail.[27]

Despite the absence of many competing bond firms bidding on Montana bonds and despite the various difficulties confronting borrowing communities, Montana bonds compete favorably with the national bond market. That is, the net interest cost on Montana bonds is generally the same or less than the net interest cost on bonds of other communities nationally. Net interest cost is, of course, partly a reflection of general market conditions. Several local factors also help determine interest cost, including the "faith and credit" of the issuing agency, the type of community (residential, business, or industrial), the outstanding debt of the agency, the tax base available for repayment levy, and the terms of repayment. Two additional factors are credit ratings and the term (life span) of the bond issues.[28]

There are several ways to demonstrate the competitiveness of general obligation bonds issued in Montana. Graphs 1-3, for example, reveal that Montana school district bonds generally have received lower interest rates than municipal bonds nationally. Montana school bonds also fared well when compared to the average interest rates received by school bonds nationally. For example, in January 1969, school bonds nationally received 4.97%, while in Montana the price was 4.66%. More recently, as Table 2 demonstrates, Montana school district bonds have sold consistently

at a lower average interest rate than the Bond Buyer's Index or bonds sold by two bond banks, Vermont and Maine. Compared to bonds sold for public school purposes in the fifty states, Montana school bonds received a lower interest rate than forty other states.[29] Bonds issued by institutions of higher education in Montana compared favorably to available data from similar institutions in the state of Washington, as Graph 4 illustrates. And bonds, both revenue and general obligation, issued by cities and towns in Montana received slightly higher interest rates than Montana school districts, but still competitive nationally.[30]

Considerable care, however, must be exercised in drawing conclusions from data of the nature depicted in the graphs below. Capital financing is a complex area and the bond market has been particularly volatile in the past few years. Moreover, in Montana over fifty percent of the bond issues in the past ten years were for less than $600,000. These issues are not shown on any graph because interest rates and maturity dates on them often ranged widely in any single year. In 1966, for example, interest rates ranged from 4.23 percent to 6 percent, the latter being unreasonably high for that year. Furthermore, many of the bond issue profiles were returned with incomplete information, while some of the data received appeared to be of questionable accuracy. (Only that information that checked with other sources was deemed accurate.) Material depicted for school bond issues, however, is complete for the years 1963-1971, and, with few exceptions, school districts provided the necessary information for the years 1972-1973. At any rate, since 1968, bond issues of less than $600,000 in Montana have been almost equal to, and in some cases lower than, interest rates nationally. The same can be said, generally, for all Montana bonds.

TABLE 1

MOODY'S MUNICIPAL BOND YIELD
AVERAGES BY RATING*

	Aaa	Aa	A	Baa
1963	3.06	3.16	3.30	3.58
1964	3.09	3.19	3.32	3.54
1965	3.16	3.25	3.38	3.57
1966	3.67	3.76	3.95	4.21
1967	3.74	3.86	4.08	4.30
1968	4.20	4.31	4.54	4.88
1969	5.45	5.58	5.82	6.07
1970	6.12	6.28	6.49	6.75
1971	5.22	5.36	5.61	5.88
1972	5.03	5.18	5.38	5.60
1973 (thru July)	5.00	5.12	5.29	5.49

*Sources: The rates for 1963-1970 are taken from Jack Crestol, Tax and Investment Opportunities of Municipal Bonds, (New York, Lybrand, Ross Bros., & Montgomery), 1971. The rates for 1971-1973 were computed from information provided by Moody's Investor Service, New York, N.Y., July, 1973. It is important to note that only bonds of $600,000 or more are rated by Moody's. Over fifty percent of the school bonds issued in Montana are for amounts of less than $600,000, yet Montana bonds are competitive with the nation.

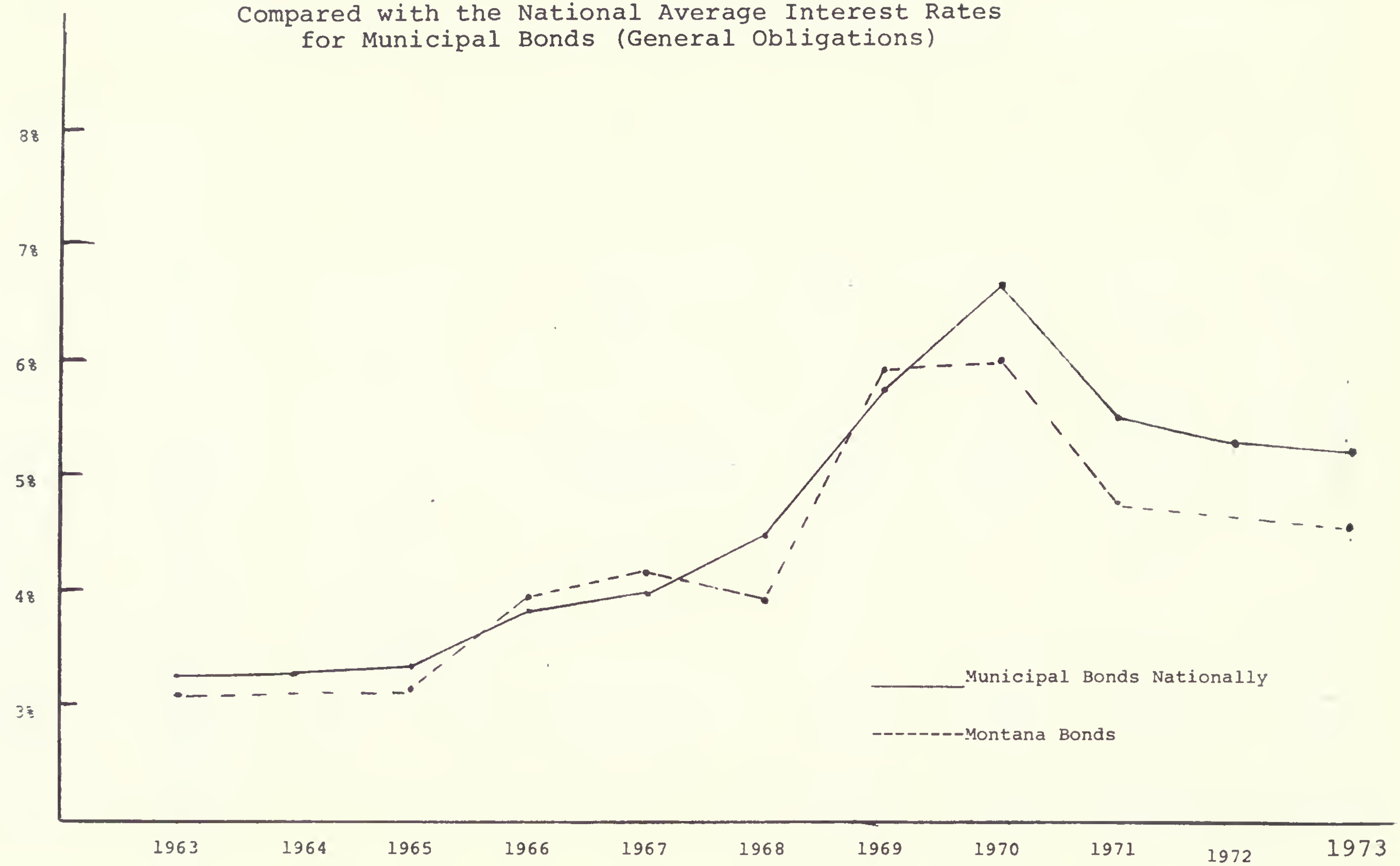
TABLE 2

SALE DATE	PAR AMOUNT	SCHOOL DISTRICT	AVERAGE RATE BONDS SOLD	B.B.I. AT SALE DATE	ADJUSTED AVE. RATE VERMONT BOND BANK	ADJUSTED AVE. RATE MAINE BOND BANK
10/3/72	$ 123,100	Park Co. S.D. #7 (Gardiner)	4.78%	5.22%	4.95%	5.06%
10/3/72	190,750	Park Co. H.S.D. #4 (Gardiner)	4.78%	5.22%	4.95%	5.06%
1/9/73	1,268,000	Yellowstone Co. S.D. #2 (Billings)	4.59%	5.03%	4.77%	4.88%
1/9/73	5,412,000	Yellowstone Co. H.S.D. #2 (Billings)	4.52%	5.03%	4.77%	4.88%
5/21/73	99,500	Missoula Co. S.D. #32 (Clinton)	4.77%	5.20%	4.93%	5.04%
5/23/73	375,000	Ravalli Co. H.S.D. #9 (Darby)	4.69%	5.20%	4.93%	5.04%
5/23/73	300,000	Ravalli Co. S.D. #9 (Darby)	4.69%	5.20%	4.93%	5.04%
5/23/73	398,549	Liberty Co. H.S.D. (Chester)	4.67%	5.20%	4.93%	5.04%
5/30/73	75,815	Glacier Co. S.D. #9 (Browning)	4.89%	5.22%	4.95%	5.06%
6/5/73	77,000	Ravalli Co. S.D. #13 (Lone Rock)	4.89%	5.13%	4.86%	4.98%
6/19/73	98,000	Gallatin Co. S.D. #72 (Ophir)	4.98%	5.19%	4.92%	5.04%
7/16/73	100,000	Cascade Co. H.S.D. #3B (Cascade)	4.94%	5.40%	5.12%	5.24%
7/16/73	50,000	Cascade Co. S.D. #3 (Cascade)	4.98%	5.40%	5.12%	5.24%

Sources: Data compiled from questionnaires to local governments; data received from the Vermont and Maine bond banks; the Bond Buyer's Index, October 1972 through July 1973.

GRAPH 1

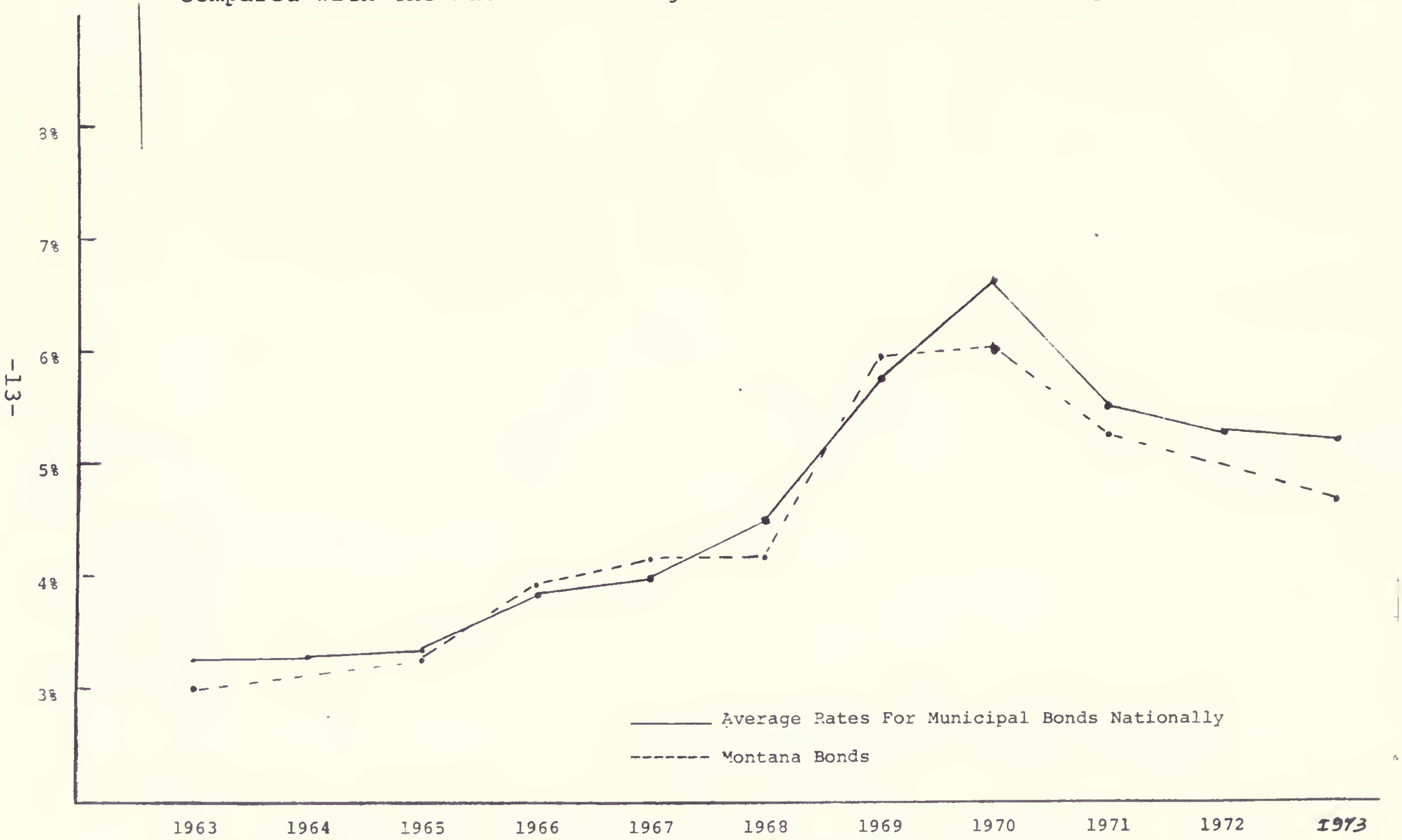
Average Interest Rates of Montana School District Bonds of One Million Dollars or More Compared with the National Average Interest Rates for Municipal Bonds (General Obligations)



Sources: Compiled from responses to questionnaires distributed to bond issuing agencies, school districts, etc.; and Moody's Investor Service, New York, New York.

GRAPH 2

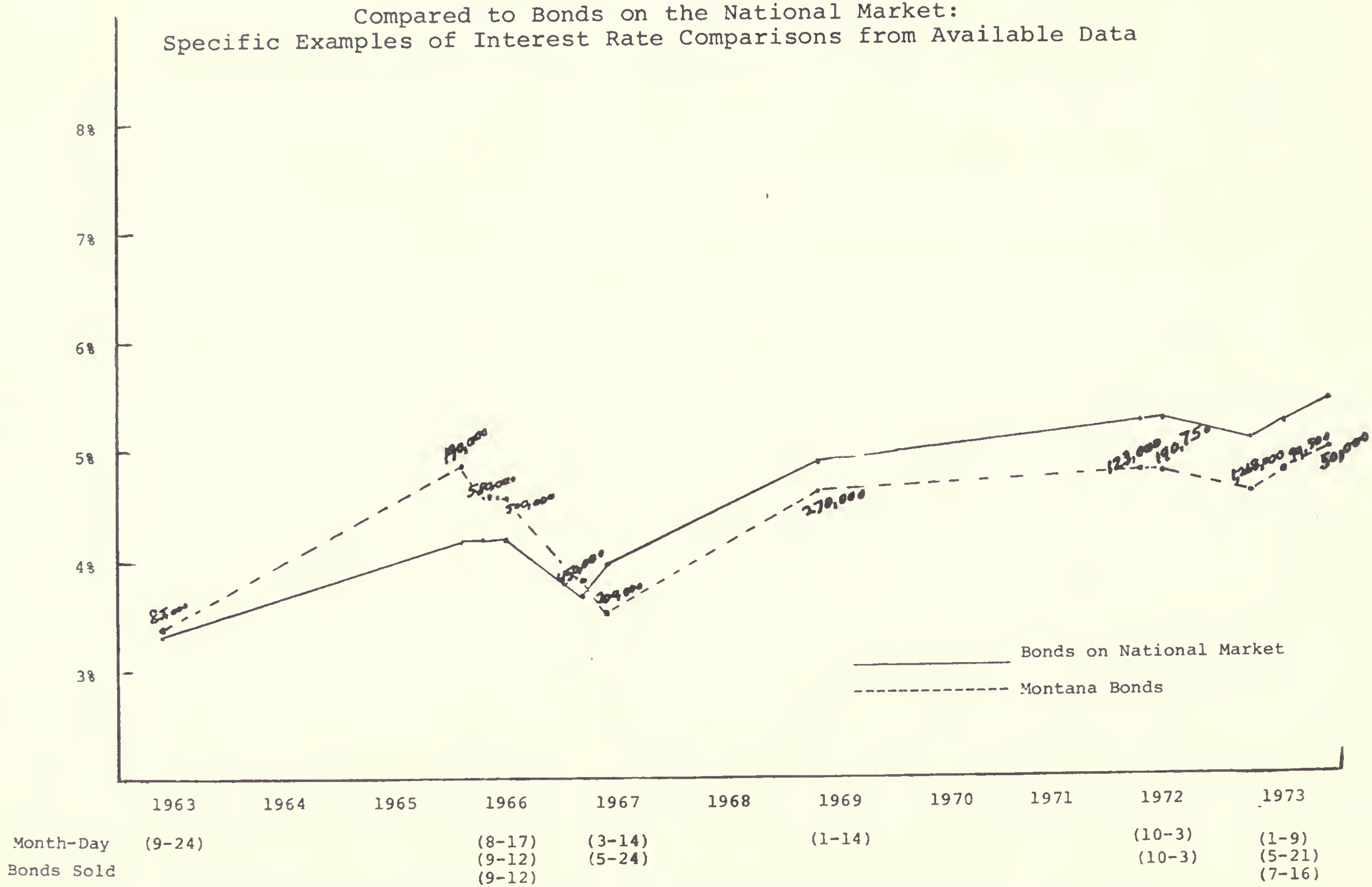
Average Interest Rates of Montana School District Bonds
of Six Hundred Thousand Dollars or More
Compared with the National Average Interest Rates for Municipal Bonds



Sources: Same as for Graph 1.

GRAPH 3

Montana School District Bonds
Compared to Bonds on the National Market:
Specific Examples of Interest Rate Comparisons from Available Data



Sources: Same as for Graph 1.

GRAPH 4

Bonds of Higher Education in Montana
Compared with Bonds of Higher Education in Washington

Sources: Data compiled from responses to questionnaires distributed to Montana universities and colleges; and <u>Bond Management--Higher Education</u>, Washington State Legislature, Joint Committees on Higher Education, September 1972, p. 4-5.

Montana bonds receive competitive interest rates for several reasons. Perhaps the primary reason is that Montana bonds are scarce and, consequently, are bought quickly by portfolio people who want to spread out the risk of their investments. In 1968, for example, only three states issued fewer bonds (in total dollar amount) than Montana.[31] Insurance companies and local banks also are often eager to buy Montana bonds: both are required by law to use bonds as collateral to cover government deposits. A further reason is that Montana bonds are exempt from state, as well as federal, tax. Montana bonds can be sold at rates lower than taxable investments and yet yield the buyer an income equal to or greater than taxable investments on bonds. Table 3 demonstrates the approximate yields that taxable investments must earn at various rates and income brackets to produce, after tax, yields equal to those on tax-free bonds.

While Montana bonds compete favorably with other municipal bonds in the United States, overhead costs to local governments issuing bonds appear higher than might be expected, and these costs are not competitive. Just as important, the committee questionnaires returned by local governments revealed a general lack of knowledge of the bond field on the part of local officials responsible for issuing bonds. This absence of expertise in such a technical area is understandable. Thus, the committee studied several means by which local governments could be assisted in the bond process, particularly in reducing overhead costs and increasing the availability of general information.

TABLE 3

Individual Income Brackets--Thousands of Dollars

JOINT RETURN	6M to 8M	8M to 10M	10M to 12M	12M to 16M	16M to 17M	17M to 20M	20M to 24M	24M to 26M	26M to 28M	28M to 32M	32M to 36M	36M to 40M	40M to 44M
FEDERAL RATE	19%	22%	22%	25%	28%	28%	32%	36%	36%	39%	42%	45%	48%
MONTANA RATE	7.0%	8.4%	9.8%	11.2%	11.2%	12.6%	12.6%	12.6%	14.0%	14.0%	14.0%	14.0%	14.0%
TAX EXEMPT YIELDS 3.00%	3.70 3.98	3.85 4.20	3.85 4.26	4.00 4.50	4.17 4.69	4.17 4.77	4.41 5.05	4.69 5.36	4.69 5.45	4.92 5.71	5.17 6.02	5.45 6.34	5.77 6.70
3.25	4.01 4.31	4.17 4.55	4.17 4.61	4.33 4.88	4.51 6.08	4.51 5.16	4.70 5.45	5.08 5.81	5.08 5.90	5.33 6.20	5.60 6.52	5.91 6.87	6.25 7.26
3.50	4.32 4.65	4.49 4.90	4.49 4.97	4.67 5.26	4.86 5.47	4.06 5.56	5.15 5.89	5.47 6.26	5.47 6.36	5.74 6.67	6.03 7.02	6.36 7.40	6.73 7.82
3.75	4.63 4.98	4.81 5.25	4.81 5.33	5.00 5.63	5.21 5.86	5.21 5.95	5.51 6.31	5.86 8.70	5.86 8.81	6.15 7.15	6.47 7.52	6.82 7.93	7.21 8.39
4.00	4.94 5.31	5.13 5.60	5.13 5.69	5.33 6.01	5.56 6.28	5.56 8.36	5.88 6.73	6.25 7.15	6.25 7.27	6.56 7.62	6.90 8.01	7.27 8.46	7.69 8.94
4.25	5.25 5.64	5.45 5.95	5.45 8.04	5.67 6.38	5.90 6.65	5.90 6.75	6.25 7.15	6.64 7.60	6.64 7.72	6.97 8.10	7.33 8.52	7.73 8.99	8.17 9.50
4.50	5.56 5.97	5.77 6.30	5.77 6.40	6.00 6.76	6.25 7.04	6.25 7.15	6.62 7.57	7.03 8.04	7.03 8.18	7.38 0.58	7.76 9.02	8.18 9.51	8.65 10.06
4.75	5.86 6.31	6.09 6.65	6.09 6.75	6.33 7.13	6.60 7.43	6.60 7.55	6.99 7.99	7.42 8.49	7.42 8.63	7.79 9.05	8.19 9.52	8.64 10.04	9.13 10.62
5.00	6.17 6.64	6.41 7.00	6.41 7.11	6.87 7.51	6.94 7.82	6.94 7.95	7.35 8.41	7.81 8.94	7.81 9.08	8.20 9.53	8.62 10.02	9.09 10.57	9.62 11.19
5.25	6.48 6.97	8.73 7.35	6.73 7.46	7.00 7.88	7.29 8.21	7.29 8.34	7.72 8.83	8.20 9.39	8.20 9.54	8.61 10.01	9.05 10.53	9.55 11.10	10.10 11.74
5.50	6.79 7.30	7.05 7.70	7.05 7.82	7.33 8.26	7.64 6.60	7.64 6.74	8.09 9.25	8.59 9.83	8.59 9.99	9.02 10.48	9.48 11.03	10.00 11.63	10.58 12.30
5.75	7.10 7.63	7.37 8.05	7.37 8.17	7.67 8.63	7.99 8.99	7.99 9.14	6.46 9.68	8.98 10.28	8.98 10.45	9.43 10.98	9.91 11.53	10.45 12.16	11.06 12.86
6.00	7.41 7.96	7.69 8.40	7.69 8.53	8.00 9.01	8.33 9.38	8.33 9.53	8.82 10.10	9.38 10.73	9.30 10.90	9.84 11.44	10.34 12.03	10.91 12.68	11.54 13.42
6.25	7.72 8.30	8.01 8.75	8.01 8.88	8.33 9.38	8.68 9.77	8.68 9.93	9.19 10.52	9.77 11.17	9.77 11.36	10.25 11.91	10.78 12.53	11.36 13.21	12.02 13.98
6.50	8.02 8.63	8.33 9.10	8.33 9.24	8.67 9.76	9.03 10.17	9.03 10.33	9.56 10.94	10.16 11.62	10.16 11.81	10.66 12.39	11.21 13.03	11.82 13.74	12.50 14.53
6.75	8.33 8.96	8.65 9.44	8.65 9.59	9.00 10.14	9.38 10.56	9.38 10.73	9.93 11.36	10.55 12.07	10.55 12.27	11.07 12.87	11.64 13.53	12.27 14.27	12.98 15.09
7.00	8.64 9.29	8.97 9.80	8.97 9.95	9.33 10.51	9.72 10.95	9.72 11.12	10.29 11.78	10.94 12.51	10.94 12.72	11.48 13.34	12.07 14.03	12.73 14.80	13.46 15.65
7.25	8.95 9.62	9.29 10.15	9.29 10.30	9.67 10.89	10.07 11.34	10.07 11.52	10.66 12.20	11.33 12.96	11.33 13.17	11.89 13.82	12.50 14.53	13.18 15.33	13.94 16.21
7.50	9.26 9.96	9.62 10.50	9.62 10.66	10.00 11.28	10.42 11.73	10.42 11.92	11.03 12.62	11.72 13.41	11.72 13.63	12.30 14.30	12.93 15.04	13.64 15.88	14.42 18.77
7.75	9.57 10.29	9.94 10.85	9.94 11.01	10.33 11.64	10.76 12.12	10.76 12.32	11.40 13.04	12.11 13.85	12.11 14.08	12.70 14.77	13.36 15.54	14.09 16.38	14.90 17.36
8.00	9.88 10.62	10.25 11.20	10.26 11.37	10.67 12.01	11.11 12.51	11.11 12.71	11.76 13.46	12.50 14.30	12.50 14.53	13.11 15.25	13.79 16.04	14.55 16.91	15.38 17.88

Source: "What Tax Exempt Municipal Bonds Mean To You," D. A. Davidson & Co., Great Falls, Montana, 1972.

The first method the committee analyzed was the "Bond Bank" concept.[32] A bond bank is as a centralized state agency or depository that pools the smaller bond issues of local governments into a large issue, sells the single issue, and then divides the proceeds among the participating governments.

The primary advantages of a bond bank are: 1) to obtain lower interest rates, thereby reducing the costs to local governments of borrowing capital monies; 2) to lessen the dependence of small municipalities on local banks who usually buy bonds for fifteen years or less, thus allowing local governments to borrow for longer periods of time and to defer costs to present and future generations; 3) to boost the credit rating, where the rating is low or non-existent; and 4) to reduce overhead costs. The bond bank should be particularly advantageous to states with rural populations, according to a study by the Graduate School of Business, the State University of New York. Two states with populations nearly equal to Montana's -- Vermont and Maine -- have encountered success with bond banks. Several other states have considered or are considering bond banks.

In considering a bond bank for Montana, the committee asked three questions: 1) How do interest rates in Montana compare with interest rates nationally and with the Vermont and Maine bond banks? 2) What, if any, is the minimum annual volume necessary to sustain a bond bank operation?, and 3) Would a bond bank reduce overhead costs?

As already noted, Montana bonds enjoy interest rates favorable to any in the nation, and Montana school district bonds have received lower interest rates than either the Vermont or the Maine bond bank (see Table 2). The annual volume necessary to sustain a bond bank, according to an estimate by the executive directors of the Vermont and Maine bond banks, is between $8 million and $12 million in general obligation bonds.[33] From 1963 through 1972 Montana communities issued a total of $75,578,141 worth of bonds or an average of $7,557,814 per year. The volume of general obligation bonds currently issued in Montana is not only less than the estimated amount necessary for a bond bank but, as Graph 5 illustrates, the volume is erratic from year to year. It is also important to note that over ninety percent of the general obligation bonds issued in Montana (graphs 6-7 and Table 4) in the past ten years were school bonds. And it is likely, with the current high interest rates, the trend toward zero population growth, and the declining school enrollment figures, that school bond issues have reached their peak for a decade or more.[34] Finally, the available information made it difficult to determine whether a bond bank in Montana would reduce overhead costs. A bond bank would cost approximately $20,000 per year to operate, an amount that might be made up in lower interest rates.

GRAPH 5

Total Volume in Dollar Amount of General Obligation Bonds
Issued by Local Governments in Montana
1963-1973 (July)

Sources: Compiled from questionnaires distributed to towns, cities, counties, and school districts, Legislative Council Office Files, 1973.

GRAPH 6

Total Amount in Dollar Amount
of Bonds Issued by School Districts in Montana
1963-(July) 1973

Sources: Office of the Superintendent of Public Instruction: Report on Evaluation of State Technical Assistance to School Districts. Legislative Auditor's Office, Helena, Montana, 1972, p. 10; and statistics compiled from questionnaires to School Districts, Legislative Council Files, 1973.

GRAPH 7

Total Volume of General Obligation and Revenue Bonds
Issued by Montana Cities and Towns
1963-(July) 1973

*This is a sample: 48 of 156 cities and towns responded to the Bond Issue Profile. Of the 12 cities with populations of 9,000 or more, however, 7 responded, while many of the smaller towns that did not respond probably have not issued any bonds in the past ten years.
**Includes an $18,000,000 Revenue Bond issued by Billings.

TABLE 4*

SCHOOL BONDS ISSUED IN MONTANA
1963-1972

Year of Issues	No. of Issues	Total Amount	Highest Bond Interest Rate	Lowest Bond Interest Rate	Largest Bond Issue	Smallest Bond Issue
1973	7	$ 8,069,315	4.89%	4.52%	$5,412,000	$75,815
1972	12	2,785,140	4.8 %	4.20%	498,000	80,700
1971	7	3,358,000	6.00%	4.10%	1,555,000	22,000
1970	7	1,255,100	6.00%	5.47%	361,900	31,000
1969	15	5,649,277	6.00%	4.45%	1,720,000	65,000
1968	24	11,489,065	6.00%	3.50%	3,260,000	8,500
1967	37	8,903,213	5.00%	3.25%	1,450,000	20,000
1966	36	17,901,413	5.06%	1.80%	3,289,000	18,000
1965	31	10,010,624	5.00%	2.74%	2,000,000	4,000
1964	24	3,034,468	4.50%	2.40%	515,000	14,000
1963	23	5,925,144	5.00%	2.20%	1,326,000	5,000
TOTALS	223	$70,311,444				

*Sources: Office of the Superintendent of Public Instruction: Report on Evaluation of State Technical Assistance To School Districts. Office of the Legislative Auditor, Helena, Montana, 1972, p. 10; Computations from responses of questionnaire sent to county treasurers, July 1973.

It is not certain, however, that the collective overhead costs of issuing bonds in Montana would equal $20,000.

The Committee decided, based upon the available information, to reject the bond bank concept. The primary difficulty in Montana -- reducing overhead costs and providing information -- might better be solved through avenues less complex than a bond bank.

Of the other methods analyzed, several were more applicable to large urban populations than Montana. The New York City Municipal Bond Bank, for example, was designed mainly to achieve higher credit ratings for bonds in a city beset with social ills. Still other methods of financing capital outlays thought to be applicable to Montana, such as the South Dakota Building Authority, have proved unsuccessful in achieving lower interest rates.[35] Other methods, less comprehensive than a bond bank or building authority, could be implemented. Two of the recommendations made by the Legislative Auditor's Office to the Office of the Superintendent of Public Instruction, by which public schools could be assisted, are:

1. Sponsoring at regular intervals, training and educational programs on debt management procedures and practices for the benefit of school district officials.

2. Maintenance of a central file of debt and related data for all school districts to provide ready access to official data, on a comparable basis, for the benefit of local government officials, security underwriters, investors, security analysts, and interested citizens. The ready availability of this information would benefit school districts by insuring that those evaluating their obligations had access to information on their fiscal situation.[36]

At the present, however, the recommended innovations have not been acted upon.

After reviewing several methods of capital financing, the committee decided that the unique needs of Montana communities for bond assistance demanded a unique solution. The Committee recommends that the Department of Administration be empowered to provide local governments with advice and information in the bond field, in cooperation with the Attorney General and the respective county attorney. Before any advice or assistance, not presently and commonly given, can be rendered, however, it must be requested by a local government official responsible for the bond issue. Advice could be rendered to local government officials on the method of financing a bond, the size of the issue, the maturity schedule, the timing of the sale, advertising, etc. And the Department of Administration could handle the marketing of individual bonds on a request basis. In this manner, communities with infrequent transactions with the money market can be given

access to the highly specialized skills involved in planning and marketing bonds. Moreover, the involvement of the state in the debt management practices of its political subdivisions would be limited to an advisory capacity.

The Department of Administration is particularly qualified to handle the responsibilities of rendering advice and providing information in the bond field. The Board of Investments, under the Department of Administration is involved daily in money markets. And the State Investment officer is a former bond specialist. No other office in the state is as capable to render advice to local governments in the bond field.

The result of implementation of the committee's recommendation should be the improvement of an already favorable situation. Not only should local governments continue to receive competitive interest rates on their bonds, but debt management practices should improve and overhead costs should be reduced. The Department of Administration could, for example, provide local governments with immediate information on where to advertise their bonds and on what cost to expect.

Local officials responded favorably to a questionnaire on whether state technical advice in the bond field should be available to local governments. Sixty percent of the municipalities responding to a questionnaire said they wanted assistance in the bond field, sixty-six percent said they preferred help from the state rather than a private counsel, and sixty-three percent said they would utilize state assistance if it were available. Forty-eight percent of those counties responding to the questionnaire said they wanted assistance, only twenty percent wanted to hire their own private counsel, and sixty percent said they would utilize state assistance if it were available. Those who responded favorably to state assistance also mentioned the need for information and procedural guidelines as a major area in which aid was needed.

The Committee makes one further recommendation. Several school districts within a single county should be permitted to consolidate, if they desire, their bond issues into a single issue for the purpose of achieving lower interest rates. Presently, school districts must market their bonds separately; consolidation might save them money. For example, in 1965, six school districts in Cascade County issued bonds ranging from $100,800 to $4,800 with interest rates ranging from 3.41% to 4.00%. As a general rule, large issues receive lower interest rates than small issues. Had the school districts in Cascade County pooled their issues in 1965 (totaling $550,941), they probably could have received the lowest rate, at most 3.4%. The savings incurred in consolidating issues at the county level could be considerable, particularly if several small issues were combined to make one large issue. By allowing school districts to combine their bond issues, the Legislature would be taking one step in the process of passing legislation authorizing local communities to act on their own behalf.

SUMMARY

The Joint Committee on Finance and Claims began its study of the bond process in Montana aware that problems confronted local officials responsible for planning and marketing bonds. The Committee discovered that while problems existed, they were not substantial enough to warrant a wholesale revision of Montana laws and debt management practices of local communities. The Committee determined that the state should assist local governments, when requested, with general advice and information. Concurrently, a continuous and careful watch should be kept on the Montana bond market in order to insure that present favorable conditions continue to exist. The Committee further believes that the implementation of its recommendations, however limited in scope, will enable local governmental officials to plan, advertise, and market their bond issues with considerably more efficiency than in the past. The Committee therefore endorses the recommendations as stated at the beginning of this report.

FOOTNOTES

[1]Office Of The Superintendent Of Public Instruction: Report On Evaluation Of State Technical Assistance To School Districts, Office of the Legislative Auditor, State of Montana, Helena, December, 1972.

[2]Ibid., p. 12. The cost of advertising the above issue should have been closer to $150.00 or $200.00.

[3]Ibid., pp. 13, 16-17.

[4]See Appendix 1.

[5]State Constitutional and Statutory Restrictions on Local Government Debt, Advisory Commission on Intergovernmental Relations, September, 1961, pp. 6,7,16; Gordon L. Calvert, ed., Fundamentals of Municipal Bonds, Washington, D.C., Investment Bankers of America, 1959, pp. 15-16.

[6]State Constitutional and Statutory Restrictions on Government Debt, pp. 9-10. The State of Montana presently is planning to put its Long-Range Building Program on a cash basis, rather than repaying a bond sale over a ten-year period. Interview with Mr. Jack Crosser, Deputy Director, Department of Administration; J. D. Holmes, "Judge Backs Cash Building," The Missoulian, September 6, 1973, p. 24.

[7]Calvert, Fundamentals of Municipal Bonds, pp. 29-41, 55-67.

[8]Various historical sources are available. Gabriel Kolko, Railroads and Regulations, Princeton, Princeton University Press, 1965; Harry L. Severson, "The Formative Century in the Evaluation of Today's State and Local Bonds," The Daily Bond Buyer, May 22 and June 5, 1961. See also State Constitutional and Statutory Restrictions on Government Debt, pp. 19-20, 37.

[9]Daniel Rubinfeld, "Credit Ratings and the Market for General Obligation Municipal Bonds," National Tax Journal, XXVI, No. 1, March, 1973, pp. 17, 25.

[10]State Statutory and Constitutional Restrictions on Debt, p. 38.

[11]In Montana, for example, Section 10 of Article VIII of the new constitution directs the legislature to limit local government debt by law. Section 16-807, R.C.M. 1947, as amended by the 1973 Legislature, clarifies the limit of indebtedness a county can incur as being 5% of the assessed value of the taxable property in the county. "Local Governments," Montana Legislative Council Report No. 45, 1971-72, p. 232.

[12]Program of Suggested State Legislation, 1963, Chicago, The Council of State Governments, 1962, pp. 29-30.

[13]Judge, Thomas L., Governor, "Modernizing Local Government: Why It Cannot Wait," a paper given before the Convention of the Montana League of Cities and Towns, September 14, 1973.

[14]This paragraph relies heavily on Ronald W. Forbes and Edward F. Renshaw, "State Bond Banks: Review of Present Developments and Needs for State Bond Banks," Municipal Finance Officers Association Special Bulletin, September 1, 1972, pp. 2-3, (hereafter cited as MFOA). For a discussion of the effect of credit ratings on the bond market, see Daniel Rubinfeld, "Credit Ratings and the Market for General Obligation Municipal Bonds," National Tax Journal, XXVI, No. 1, (March 1973), pp. 17-28.

[15]Forbes and Renshaw, MFOA, pp. 1, 2; and Robert E. Toolan, "The Bond Bank -- How It Works and Where Is It Going?" MFOA Special Bulletin, September 1, 1972, p. 11.

[16]See 75-3904 (1224.4), R.C.M. 1947.

[17]See 79-2602, R.C.M. 1947.

[18]Most credit rating corporations will not rate a bond of less than $600,000.

[19]For example, see Rubinfeld, "Credit Rating". While few Montana bonds receive ratings, those that do show a small but significant effect on interest rates.

[20]See 75-7102 through 75-7138, R.C.M. 1947; and Office Of The Superintendent Of Public Instruction: Evaluation Of State Technical Assistance to School Districts, Office of Legislative Auditor, p. 11.

[21]79-1102, 79-1704 and 05, R.C.M. 1947; interview with Mr. James Howeth, State Investment Officer.

[22]82-410 to 82-413, R.C.M. 1947; Legislative Auditor's work papers detailing interview with Mr. Murfitt, private attorney, on special assignment for the Attorney General.

[23]Opinions of the Attorney General, Vol. 31, Opinion No. 23, October 22, 1963, pp. 62-65, Helena, Montana.

[24]Revenue bonds are more difficult to market than general obligation bonds because general obligations are paid from taxes while revenue bonds are paid from a project that pays its way by charging rentals to the users.

[25]Examples cited in this report, unless otherwise stated, are responses to a questionnaire distributed to local officials, throughout the state, involved in issuing bonds.

[26]Several other cities paid between $96 and $1400 for bond counsel on an issue of similar size.

[27]It should be noted, however, that these bond firms do bid on occasion for other firms, and that they have several companies in portfolio to whom they then sell Montana bonds. See, for example, Christone C. Meyers, "School Bonds Sold," The Billings Gazette, January 11, 1973, p. 41.

[28]See Calvert, Fundamentals, pp. 103-111, 117; Irene A. King, Bond Sales for Public School Purposes, 1971-72, DHEW Publication No. 73-11406, Washington, D.C., U.S. Government Printing Office, 1973, pp. 8-9; Rubinfeld, "Credit Ratings," pp. 17-28; and Jackson Phillips, "Factors in Municipal Bonds Rating," a paper read at the Practicing Law Institute, Las Vegas, Nevada, February 7, 1973.

[29]Irene A. King, Bond Sales for Public Schools, pp. 12-13.

[30]Records for bonds issued by Montana municipalities can be seen in the Legislative Council office. Because the maturity dates varied and because much information received was incomplete, no graph was compiled for cities and towns.

[31]Compiled from information in Forbes and Renshaw, "State Bond Banks," p. 9.

[32]The bond bank idea has received wide and intense attention in the past few years because of high interest costs. See Forbes and Renshaw, "State Bond Banks"; Robert E. Toolan, "The Bond Bank -- How It Works"; "Vermont Municipal Bond Bank -- A Promising Innovation", The Daily Bond Buyer (February 22, 1971); Brian T. Hart, "The New York Municipal Bond Bank Agency," State Government (Autumn, 1972); and correspondence and prepared remarks from officials of other states that have and/or are considering bond banks, Montana Legislative Council files, 1973.

[33]Letters to Dick Hargesheimer, Legislative Researcher, from Leo K. Hickey, Secretary and Treasurer of the Vermont Municipal Bond Bank, August 9, 1973, and from C. L. Andreasen, Executive Director, Maine Municipal Bond Bank, August 10, 1973, Legislative Council files.

[34]In Montana, elementary and secondary school enrollment dropped by 7,650 in 1971-1972. Montana School Statistics, Office of the Superintendent of Public Instruction, State Capitol, Helena, Montana (August, 1972), pp. II.1.

[35]Forbes and Renshaw, "State Bond Banks," pp. 4-5; Hart, "New York Bond Bank," pp. 264-267; Xerox copy of letter to Governor Richard Kneip of South Dakota, from A. G. Becker and Co., Chicago, December 1, 1971.

[36]Office Of The Superintendent Of Public Instruction, Evaluation Of State Technical Assistance To School Districts. Legislative Auditor's office, Helena, Montana(1972), pp. 15-17.

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APPENDIX I

JOINT INTERIM SUBCOMMITTEE ON FINANCE AND CLAIMS

Bond Issue Profile*

(As of June 30, 1973)

County, city, college, etc. ______________________________

Institution: i.e., school district #, city, etc. 1.	Description of Issue: i.e., Buildi construction elementary. 2.

Date of Issue: 3. Date(s) of Sale: 3A.	4. Type of Bond (Revenue, General obligations, S.I.D.):

Total Authorized: 5. $	$	Redeemed: 6. $	Outstanding: 7. $

Term of Bonds: 8.	Last Maturity (Date): 9.	Effective Int. Rate: 10. %

Average Interest: 11. (Rate over life of bond): %	Total Interest: 12. $	Issue Negotiated: ( ) Sold Competively: ( ) 13.

The Bonding House that purchased the bonds, i.e. D. A. Davidson, Piper, Jaffray, and Hopwood, etc.
14.

Refunding Provisions, if any:
15.

Rating of Issue, if any: 16.	Rating Service (s): i.e., Standard and Poor's or Moody's. 17.

Bond Counsel (Firm Name), if any:
18.
Fee: $

Other External Costs?
19.
- A) Approx. cost of Bond election: $
- B) Cost of advertising Bond issue: $
- C) Printing of Bonds: $
- D) Service charge, charged by Bonding House: $

Prepared by: Title: Date Submitted:

SENATE MEMBERS

CARROLL GRAHAM
CHAIRMAN

FRANK HAZELBAKER

NEIL J. LYNCH

JIM MOORE

MRS. ROSE WEBER
EXECUTIVE DIRECTOR

MISS PAMELA FREY
ADMINISTRATIVE ASSISTANT

HOUSE MEMBERS

HENRY S. COX
VICE CHAIRMAN

FRANCIS BARDANOUVE

HAROLD GERKE

ROBERT MARKS

PETER M. MELOY
DIRECTOR, LEGAL SERVICES DIVISION

MRS. ROBERTA MOODY
SUPERVISOR, ALTER SYSTEM

Montana Legislative Council

State Capitol
Helena 59601

August 7, 1973

TO: All Bond Issuing Entities

FROM: JOINT INTERIM SUBCOMMITTEE ON FINANCE AND CLAIMS

RE: Questionnaire on Technical Assistance on the Planning, Marketing, and Servicing of Bond Issues

Name (i.e., county, city, college, etc.) ____________________

NOTE: Counties, cities, colleges, etc., would not be required to utilize State technical assistance concerning the issuing of bonds were such assistance available.

1. Would you desire or need technical assistance from the state on the issuing of your bond issues?

2. Would you desire technical assistance from a financial consultant, of your own choosing, when issuing your bond issues?

OR--

Would you prefer that technical assistance be provided by a financial expert whether hired or already employed by the State?

3. Would you utilize the services of a state financial expert if such a service were available?

4. If the answer to number 3 is yes, what kind of technical assistance would you desire. (you may check all or none, and provide comments beside each if you wish):

   a. Planning the bond election:

   b. Advertising the bond issue:

   c. Marketing the bonds:

   d. Other (please specify):

5. Have you experienced any particular problems in the planning, marketing or servicing of bonds? If so, please describe:

6. Were you unable to issue any bond in the past five (5) years because of any of the state laws? If so, please describe:

7. Any defaults in the last ten (10) years?

8. Comments:

______________	______________	______________
Signed	title	date

APPENDIX 2

KEY TO MUNICIPAL RATINGS

Aaa These bonds are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge."

Aa Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or there may be other elements present that make the long-term risks appear somewhat larger than in Aaa securities.

A Bonds rated A possess many favorable investment attributes and are to be considered as higher medium grade obligations.

Baa Bonds rated Baa are considered as lower medium grade obligations; i.e., they are neither highly protected nor poorly secured.

Ba Bonds rated Ba are judged to have speculative elements; their future cannot be considered as well-assured.

B Bonds rated B generally lack characteristics of the desirable investment.

Source: Irene A. King, Bond Sales For Public School Purposes, 1971-72, Washington, D.C.: U.S. Government Printing Office, 1973, p. 8-9.

APPENDIX 3

GLOSSARY OF TERMS: DEBT MANAGEMENT

Ad Valorem Tax. A tax based on the assessed value of property.

Amortization. Special periodic payments which pay off a debt.

Basis Price. The price expressed in yield or net return on the investment.

Bearer Bond. A bond which has no identification as to owner. It is presumed to be owned, therefore, by the bearer or the person who holds it. A bearer bond is said to be in "Bearer Form."

Bond. An interest-bearing promise to pay with a specific maturity.

Callable Bond. A bond which is subject to redemption prior to maturity of the option of the issuer.

Coupon. That part of a bond which evidences interest due. Coupons are detached from bonds by the holders -- usually semi-annually -- and presented for payment to the issuer's designated paying agent, or deposited in his own bank for collection.

Coverage. This is a term usually connected with revenue bonds. It indicates the margin of safety for payment of debt service, reflecting the number of times or percentage by which earnings for a period of time exceed debt service payable in such period.

Current Yield. A relation stated as a percent of the annual interest to the actual market price of the bond -- same procedure as computing a stock yield.

Debt Limit. The statutory or constitutional maximum debt incurring power of a municipality.

Debt Ratio. The ratio of the issuer's debt to a measure of value, such as assessed valuation, real value, etc.

Debt Service. Required payments for interest on and retirement of principal amount of a debt.

Default. Failure to pay principal or interest promptly when due.

Denomination. The face amount or par value of a bond which the issuer promises to pay on the bond's maturity date.

Discount. The amount, if any, by which the principal amount of a bond exceeds the cost price.

General Obligation. A bond secured by pledge of the issuer's full faith and credit and taxing power.

Interest. Compensation paid or to be paid for the use of money.

Interest Dates. The dates on which interest is payable to the holders of the bonds, usually set at semi-annual intervals of the first or the fifteenth of the month.

Interest Rate. The interest payable each year, expressed as a percentage of the principal.

Issuer. A municipal unit which borrows money through sale of bonds.

Legal Opinion. An opinion concerning the legality of bond issue by a recognized firm of municipal bond attorneys specializing in the approval of public borrowings.

Marketability. The measure of the ease with which a bond can be sold in the secondary market.

Maturity. The date upon which the principal of a bond becomes due and payable.

Net Debt. Gross debt less sinking fund accumulations, and all self-supporting debt.

Official Statement. An official document prepared by the investment banker or the issuer which gives in detail the security and financial information relating to the issue.

Over-the-Counter Market. A securities market which is conducted by dealers throughout the country through negotiation rather than through the use of an auction system as represented by a stock exchange.

Par Value. The face amount of a bond -- $1,000 or $5,000.

Paying Agent. Place where the principal and interest is payable. Usually a designated bank or the treasurer's office of the issuer.

Premium. The amount, if any, by which the price exceeds the principal amount of a bond.

Principal. The face amount of a bond, exclusive of accrued

interest.

<u>Ratings</u>. These are designations used by investors' services to give relative indications of quality.

<u>Refunding</u>. A system by which a bond issue is redeemed from the proceeds of a new bond issue at conditions generally more favorable to the issuer.

<u>Registered Bond</u>. A bond whose ownership is registered with the issuer or its agents, either as to both principal and with the issuer or its agents, either as to both principal and interest or as to principal only.

<u>Revenue Bond</u>. A bond payable from revenues secured from a project which pays its way by charging rentals to the users, such as toll bridges or toll highways, or from revenues from another source which are used for a public purpose.

<u>Secondary Market</u>. Market for issues previously offered or sold.

<u>Self-Supporting Debt</u>. Debt incurred for a project or enterprise requiring no tax support other than the specific revenue earmarked for the purpose.

<u>Serial Bond</u>. A bond of an issue which has maturities scheduled annually or semi-annually over a period of years.

<u>Sinking Fund</u>. A reserve fund accumulated over a period of time for retirement of a debt.

<u>Subdivision</u>. A unit of government such as county, town, city, or village.

<u>Syndicate</u>. A group of investment bankers who buy (underwrite) "wholesale" a new bond issue from the issuing authority and offer it for resale to the general public.

<u>Tax Base</u>. The total resources available for taxation.

<u>Tax-Exempt Bond</u>. A bond the interest on which is exempt from Federal income tax.

<u>Trustee</u>. A bank designated as the custodian of funds and official representative of bondholders.

<u>Unlimited Tax Bond</u>. A bond secured by pledge of taxes which may be levied in unlimited rate or amount.

<u>Yield</u>. The net annual percentage of income from an investment. The yield of a bond reflects interest rate, length of time to maturity and write-off of premium or discounts.

Source: John Nash, Tax Exempt Municipal Bond Guide for the Individual Investor in the 1970's, Washington, D.C., Financial, Government and Public Affairs Communicators, 1971, pp. 20-21.

APPENDIX 4

__________ BILL NO. _____

INTRODUCED BY ____

16-3101, 82-411

A BILL FOR AN ACT ENTITLED: "AN ACT PERMITTING POLITICAL SUBDIVISIONS TO SEEK THE ADVICE OF THE DEPARTMENT OF ADMINISTRATION, THE ATTORNEY GENERAL AND THE COUNTY ATTORNEY IN PREPARING AND NEGOTIATING GENERAL OBLIGATION BOND ISSUES, AND PRESCRIBING THE CONDITIONS AND CIRCUMSTANCES UNDER WHICH POLITICAL SUBDIVISIONS MAY PAY ATTORNEYS FEES AND BROKERAGE FEES OR COMMISSIONS TO ANYONE ASSISTING IN PREPARATION OR SALE OF A BOND ISSUE; AMENDING SECTIONS 16-3101 AND 82-411, R.C.M. 1947, AND CREATING FOUR NEW SECTIONS, 79-2604, 79-2605, 79-2606 AND 82A-205.11."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. There is a new section to be numbered 79-2604, R.C.M. 1947, which reads as follows:

79-2604. Fees not permitted. No political subdivision shall pay any attorneys fees, brokerage or other fees or commissions of any kind to any person or corporation for assisting in the preparation or negotiating for sale of any general obligation bonds, nor for assisting in any proceeding incident to such preparation or negotiation. For

purposes of this section, bonds issued for the purpose of refunding general obligation bonds are treated as general obligation bonds.

Section 2. There is a new section to be numbered 79-2605, R.C.M. 1947, which reads as follows:

79-2605. Fees permitted under certain conditions. Political subdivisions may hire outside attorneys or financial consultants to assist in the preparation or negotiating for sale of any revenue bonds, special improvement district bonds, or any other type of bonds except general obligation bonds, provided, however, that no attorney's fees, brokerage or other fees or commissions shall be paid unless the fees or commissions are agreed upon in writing in advance. No person or corporation assisting in the preparation or negotiation of any bond issue of a political subdivision shall purchase any of the bonds so issued either for himself or as agent for another in the primary market.

Section 3. There is a new section to be numbered 79-2606, R.C.M. 1947, which reads as follows:

79-2606. Assistance in negotiation and sale of bonds. (1) A political subdivision which contemplates issuing bonds for any purpose may request advice from the department of administration and from the attorney general in the preparation and negotiating for sale of such bonds.

(2) A political subdivision which is or is located within a county and which contemplates issuing bonds for any purpose may request assistance from the county attorney of that county in the preparation and negotiating for sale of such bonds unless the political subdivision retains its own attorney on a regular basis.

Section 4. There is a new section to be numbered 82A-205.11, R.C.M. 1947, which reads as follows:

82A-205.11. Advice shall be provided on general obligation bonds. (1) The department of administration shall advise and render assistance to any political subdivision (as defined in section 79-2601) requesting such advice or assistance in the preparation and negotiating for sale of general obligation bonds to be issued by the political subdivision.

(2) The department shall assist any county attorney or attorney retained on a regular basis by a political subdivision requesting such assistance regarding the preparation or negotiating for sale of general obligation bonds authorized to be issued by a political subdivision.

(3) The department may request legal advice from the attorney general in advising or assisting any political subdivision pursuant to this section.

Section 5. Section 16-3101, R.C.M. 1947, is amended to read as follows:

"16-3101. Duties of county attorney. The county attorney is the public prosecutor, and must:

1. Attend the district court and conduct, on behalf of the state, all prosecutions for public offenses and represent the state in all matters and proceedings to which it is a party, or in which it may be beneficially interested, at all times and in all places within the limits of his county;

2. Institute proceedings before magistrates for the arrest of persons charged with or reasonably suspected of public offenses, when he has information that such offenses have been committed, and for that purpose, whenever not otherwise officially engaged, must attend upon the magistrate in cases of arrest, and attend before and give advice to the grand jury, whenever cases are presented to them for their consideration;

3. Draw all indictments and informations, defend all suits brought against the state or his county, prosecute all recognizances forfeited in the courts of record, and all actions for the recovery of debts, fines, penalties, and forfeitures accruing to the state or his county;

4. Deliver receipts for money or property received in his official capacity, and file duplicates thereof with the county treasurer;

5. On the first Monday of January, April, July, and

October, in each year, file with the county clerk an account, verified by his oath, of all moneys received by him in his official capacity during the preceding three months, and at the same time pay it over to the county treasurer;

6. Give when required, and without fee, his opinion in writing to the county, district, and township officers, on matters relating to the duties of their respective offices;

7. Act as counsel, without fee, for fire districts in unincorporated territories, towns or villages within his county;

8. Keep a register of all official business, in which must be entered a note of every action, whether criminal or civil, prosecuted officially, and of the proceedings therein.

9. When ordered or directed by the attorney general so to do, to promptly institute and diligently prosecute in the proper court, and in the name of the state of Montana, any criminal or civil action or special proceeding, it being hereby declared that the supervisory powers granted to the attorney general by section 82-401 (5), include the power to order and direct said county attorneys in all matters pertaining to the duties of their office.

10. Give legal advice and assistance to the public officials or governing board of any political subdivision (as defined in section 79-2601) within the county in general

obligation bond proceedings unless such political subdivision retains its own attorney on a regular basis. He shall examine the transcript of any general obligation bond proceedings of such political subdivision and shall render an opinion in writing as to whether or not the proceedings are in full compliance with the law and shall provide such additional legal services as circumstances may require. The county attorney may request legal advice from the attorney general and of the department of administration in complying with this subsection."

Section 6. Section 82-411, R.C.M. 1947, is amended to read as follows:

"82-411. Attorney general to report as to regularity of proceedings. (1) It is hereby made the duty of the attorney general to examine certified copies of all general obligation bond proceedings preliminary to the issuance of bonds by any ~~school-district,-county,-city-or-town~~ political subdivision (as defined in section 79-2601), which may be submitted to him for such examination, and if found regular and valid he shall deliver to the recording officer of such ~~municipality~~ political subdivision a report of his examination and determination as to the validity of such bonds. A certified copy of such report shall be filed with the officer required by law to register said bonds and a notation thereof shall be entered in the bond register.

(2) It is further the duty of the attorney general to give legal advice to any political subdivision, attorney retained on a regular basis by a political subdivision, county attorney or the department of administration concerning the issuance of general obligation bonds by any political subdivision."

-End-

______ BILL NO. ______

INTRODUCED BY ____________________

75-7121

A BILL FOR AN ACT ENTITLED: "AN ACT AMENDING SECTION 75-7121, R.C.M. 1947, TO PERMIT SCHOOL DISTRICTS WITHIN THE SAME COUNTY TO COMBINE AND COOPERATE FOR THE PURPOSE OF PREPARING BOND ISSUES AND NEGOTIATING THEM FOR SALE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 75-7121, R.C.M. 1947, is amended to read as follows:

"75-7121. Sale of school district bonds. (1) The trustees shall meet at the time and place fixed in the notice to consider bids on the bond issue. The bonds shall be sold at not less than par and accrued interest and each bidder shall specify the form of bonds to be issued, whether amortization or serial, and the rate of interest at which he will purchase the bonds. A bid for amortization bonds shall have the preference over a bid for serial bonds, all other things being equal; and in considering bids on these classes of bonds, the trustees shall take into consideration not only the rate of interest demanded on each kind, but also every other known element affecting the total cost of the

bonds to the district when paid in full. The trustees shall accept the bid which they shall judge most advantageous to the school district. No attorney fees, brokerage or other fees, or commissions of any kind shall be paid to any person or corporation for assisting in the proceedings or in the preparation of the bonds, or in negotiating the sale. The trustees are authorized to reject any or all bids and to sell the bonds at private sale if they deem it for the best interests of the school district except that such bonds shall not be sold at less than par and accrued interest.

(2) The trustees may cooperate and combine with other school districts within the same county for the purpose of preparing and negotiating for sale of bond issues, if in the opinion of the trustees such cooperation or combination will facilitate the sale of school district bonds under more advantageous terms or with lower interest rates. Provided, however, that bond issues prepared or negotiated for sale under this section shall not be combined for any other purpose, but shall be entered separately on the books of the county treasurer and shall be otherwise treated as separate bond issues."

-End-